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Idaho Department of Correction

Management Report on Internal Control

Issued: December 9, 2005
Fiscal Year: 2002, 2003, and 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF CORRECTION

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Idaho Department of Correction's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The four findings and recommendations noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Department's internal control structure and operating efficiency. These matters are discussed in the findings and recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the findings and recommendations below. The recommendations are made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

FINDING #1. Parole and probation cost-of-supervision (COS) receivables are not sufficiently monitored. Parolees and probationers pay up to \$40 a month to defray some of the costs of their supervision. Some offenders cannot obtain employment for various reasons and are not required to pay the monthly fee. According to the Department's records of offenders who are employed and have the ability to pay, about \$410,000 of these receivables are four or more months past due.

Some parole and probation officers have a large amount of caseload receivables, while others have a much smaller amount of caseload receivables. This may be due to some parole and probation officers not managing their offender collections in a regular and consistent manner. Also, some staff members are not aware that there are accounts receivable aging reports that could be used to monitor past due receivables by district, probation officer, collection code, and other criteria.

We recommend that the Department utilize its offender management system aging reports to identify, collect, and resolve outstanding balances. The reports should also be used to monitor collections by parole and probation officers.

FINDING #2. The accounting for inmate special projects is not adequate. The Department contracts with nonprofit and governmental entities to use inmate labor for work projects such as roadside trash pickup, recreational development, and soil conservation. Annual revenue from these projects is about \$3.5 million.

In the prior audit report, we mentioned an inmate labor tracking system that the Department developed to collect and maintain project information. The Department has decided to replace this system, and in recent months has worked to develop a new project accounting system. However, this system has not been fully implemented. As such, some of the issues discussed in the prior audit report are still unresolved. These issues include:

1. Not all institutions are utilizing the inmate labor tracking system. For a short time period, billings made by one institution not using the system directed customers to send payments to the Department's prior address. Payments of \$114,562 and \$78,856 were sent to this old address.
2. The inmate labor tracking system does not generate useful management reports. For instance, the system does not generate a list of all contracts and projects undertaken, a listing of all project billings for a particular year, nor an accurate list of open and closed projects.
3. Cost rates used by the Department to justify fees charged to customers are not adequately supported, and vary from one facility to another.

Based on our discussions with members of the Department's staff, we believe staff turnover is the primary reason that issues noted in the prior audit report were not fully addressed.

An improved system would provide needed accounting information, help alleviate disagreements with clients about billings, help ensure the timely payment of receivables, and improve overall operating efficiency.

We recommend that upon completion of the replacement project accounting system the Department:

1. Require all institutions to utilize the new project accounting system.
2. Ensure the new system can generate useful management reports.
3. Establish standard cost rates for equipment. Documentation should be retained to support the cost rates, and the rates should be periodically reviewed.

FINDING #3. The Department's purchasing-card processes are inadequate to ensure that all purchases are appropriate. Purchasing cards (P-cards) are State credit cards used by Department employees to transact Department business. Although the Department has addressed some issues noted in the prior audit report, additional improvements can be made. The following explains:

1. Some P-card charges incurred six months ago were still not approved, and the costs have yet to be charged to the correct Department function.
2. A former Department employee is still active in the P-card system and has approval privileges. These privileges could enable the former employee to approve payment transactions.
3. The Department does not have cardholder agreements on file for all cardholders. These agreements communicate to the cardholder their responsibility with regard to use of the P-card and are required by State policy.

4. Some fiscal year 2004 P-card transactions were not properly documented. For example, purchases with inadequate documentation include \$74 in food purchases and \$102 of toy and hobby merchandise.

Good accounting and documentation help communicate employee responsibility, and also help ensure that funds are not misappropriated. In addition, timely verification and approval of expenditures will assist in ensuring that expenditures are properly recorded in the accounting system.

We believe the Department's staff turnover is the primary reason for not fully addressing all of the issues noted in the prior audit report.

We recommend that the Department strengthen controls over P-card transactions by:

1. Enforcing the requirements to verify and approve P-card transactions in a timely manner.
2. Ensuring that only current P-card users have access to the Department's P-card system, and that all cards listed as active by the bank are issued to current employees only.
3. Ensuring that cardholder agreements are on file for all cardholders.
4. Ensuring that P-card purchases are documented by providing receipts and an explanation of what the goods were used for.

FINDING #4. Accounting for travel is not in compliance with Idaho law. Idaho Code, Section 67-2006 requires that travel vouchers be completed. Department employees do not always complete travel vouchers. When a traveler did prepare a travel voucher, the voucher often did not match supporting receipts, or did not contain all necessary information such as travel authorization, mode and route of travel, lodging, meal costs, and other miscellaneous information required by travel regulations. Also, accounting is not always completed in a timely manner. For example, an employee with multiple trips during July and August did not submit documentation until September.

Since employees do not always complete travel vouchers, the Department's fiscal staff must obtain documentation for travel expenditures and piece together the total cost of the trip to determine any over- or under-reimbursement due from or to employees. This is burdensome, and in some instances has resulted in reimbursements that may be incorrect.

We recommend that the Department comply with the Idaho Code and improve accounting by:

1. Submitting signed and approved travel vouchers with supporting documentation in a timely manner.
2. Recording all travel costs on the travel voucher (including costs and advances paid by P-cards).
3. Reviewing travel expenditures to ensure they are valid and in accordance with travel regulations.

PRIOR FINDINGS AND RECOMMENDATIONS. There were nine findings and recommendations in the prior report.

PRIOR FINDING #1. Costs and related reimbursements for offender drug tests were not properly accounted for or reported in the State's accounting system. Offenders who were paroled or on probation reimbursed the field offices for the cost of their drug tests by paying with money orders made out to the vendor. The field offices would pay the vendors by simply retrieving the oldest money orders until they had accumulated an amount equal to the vendor's bill. One field office was holding 108 money orders totaling \$1,300, some of which were more than 18 months old.

The Department no longer requires offenders to pay for drug tests. Instead, the Department has increased the cost of its parole and probation supervision fee. **Status: CLOSED.**

PRIOR FINDING #2. Department processes for the Rotary Fund did not ensure accurate and proper accounting of transactions. More than \$15,000 of outstanding site drafts did not have claims submitted. Some of these outstanding site drafts were advances to employees who have since been terminated. Some inmates received duplicate payments, once from the Rotary Fund and once from the Inmate Trust Fund.

In July of 2004, the Department discontinued use of the Rotary Fund and is in the process of closing the Fund. **Status: CLOSED.**

PRIOR FINDING #3. Department P-card processes were inadequate to ensure that purchases were appropriate and valid State transactions. In many instances, documentation to show that a P-card purchase was for valid Department business was not received from employees. As a result, the Department could not determine if the purchases were proper and could not code the purchases to the correct fund and program.

The Department has addressed some issues noted in this finding, but additional improvements are needed. **Status: CLOSED (repeated as current Finding #3.)**

PRIOR FINDING #4. Department records supporting a federal grant's financial and program information were not available.

The Department now keeps this information. **Status: CLOSED.**

PRIOR FINDING #5. Inmate work projects were not properly accounted for to ensure that the Department was collecting all amounts it was owed. Some of the Department's institutions were not complying with Department directives or using the Inmate Labor Tracking System. As a result, billings were not always completed in a timely manner and, in some instances, project agreements were not sufficiently detailed to provide adequate billing information.

The Department has decided to replace its inmate tracking system with a new project accounting system. However, the new system is not yet fully developed and cost rates, used to justify fees charged to customers, are not adequately supported. **Status: CLOSED (repeated as current Finding #2.)**

PRIOR FINDING #6. The Department's food cost reports were not accurate. Food cost is one of the Department's largest expenditures. During the last audit, the food cost reports had large, unexplained variations from one month to the next.

The Department has improved its food cost reporting. **Status: CLOSED.**

PRIOR FINDING #7. The Department, in a few instances, made purchases without utilizing an open State contract.

We found no instances of the Department making purchases that were not in compliance with State purchasing regulations. **Status: CLOSED.**

PRIOR FINDING #8. The Department did not always deposit receipts in a timely manner. The Department held receipts (ranging from \$300 to \$4,000) for up to five months before depositing them.

We found a few minor instances in which the Department held receipts for a few days. We brought these to the Department's attention. **Status: CLOSED.**

PRIOR FINDING #9. The Department did not collect or monitor receivables in accordance with its policies. The Department reported \$365,000 in receivables, \$100,000 of which was more than 120 days old. Most of the receivables were comprised of supervision costs and inmate special projects receivables.

The cost of supervision receivables is still not sufficiently monitored. **Status: CLOSED (repeated as current Finding #1).**

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents. The Department's complete response to each finding is included in the Findings and Recommendation section of the report.

FINANCIAL SUMMARY. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here. The Department makes most of its expenditures from its General Fund appropriation. During fiscal year 2004, the Department expended \$59 million on personnel costs, \$21 million for the operation of the private prison, \$3 million for inmate food, \$12 million for inmate medical costs, and \$28 million for other costs.

DEPARTMENT OF CORRECTION – FINANCIAL SUMMARY

FISCAL YEAR 2002

Fund	Title	Beginning Appropriations/ Cash Balance	Plus Receipts/ Transfers	Less Disbursements/ Transfers	Ending Appropriation/ Cash Balance
0001	General Fund	\$111,732,192	\$70,172	\$111,173,024	\$629,340
0282	Inmate Labor	915,864	4,477,365	4,876,311	516,918
0284	Parolee Supervision	358,338	2,079,321	1,881,085	556,574
0348	Federal Grants	142,238	4,511,621	4,213,532	440,327
0349	Miscellaneous Revenue	1,142,445	2,012,533	1,516,339	1,638,639
0365	Permanent Building Fund	54,731	1,531,652	1,531,652	54,731
0481	Endowment Earnings	510,191	1,567,520	1,230,374	847,337
0875	Rotary	2,655	51,721	44,801	9,575
	Total	<u>\$114,858,654</u>	<u>\$16,301,905</u>	<u>\$126,467,118</u>	<u>\$4,693,441</u>

FISCAL YEAR 2003

Fund	Title	Beginning Appropriations/ Cash Balance	Plus Receipts/ Transfers	Less Disbursements/ Transfers	Ending Appropriation/ Cash Balance
0001	General Fund	\$106,887,222	\$90,955	\$105,476,966	\$1,501,211
0282	Inmate Labor	516,918	5,015,286	4,745,552	786,652
0284	Parolee Supervision	556,574	2,368,634	2,100,214	824,994
0348	Federal Grants	440,327	4,158,796	4,409,345	189,778
0349	Miscellaneous Revenue	1,638,639	1,728,411	2,035,597	1,331,453
0365	Permanent Building Fund	54,731	214,384	214,384	54,731
0481	Endowment Earnings	847,337	1,364,286	1,415,442	796,181
0630	Parole Bonds	0	100,845	4,050	96,795
0875	Rotary	9,575	32,983	25,581	16,977
	Total	\$110,951,323	\$15,074,580	\$120,427,131	\$5,598,772

FISCAL YEAR 2004

Fund	Title	Beginning Appropriations/ Cash Balance	Plus Receipts/ Transfers	Less Disbursements/ Transfers	Ending Appropriation/ Cash Balance
0001	General Fund	\$109,593,398	\$2,585	\$109,060,829	\$535,154
0282	Inmate Labor	786,652	5,557,665	4,702,886	1,641,431
0284	Parolee Supervision	824,994	3,011,431	2,568,872	1,267,553
0348	Federal Grants	189,778	3,523,741	3,673,873	39,646
0349	Miscellaneous Revenue	1,331,453	1,916,081	1,962,767	1,284,767
0365	Permanent Building Fund	54,731	453,023	453,023	54,731
0481	Endowment Earnings	796,181	1,233,419	1,240,151	789,449
0630	Parole Bonds	96,795	69,755	20,750	145,800
0875	Rotary	16,977	62,426	66,691	12,712
	Total	\$113,690,959	\$15,830,126	\$123,749,842	\$5,771,243

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Correction and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Tom Beauclair, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

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Report IC23004

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.